

*Full Length Research*

# India, A shift towards new paradigm to create a sound business environment for inclusive growth

Rajeev Rana

Assistant Professor in Economics, Graphic Era University, Dehradun, Uttarakhand

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Indian have been characterized as an agrarian economy, and shown predominance of agricultural and other primary activities in the domestic production. While there contribution was very significant as compared to other sector in GDP. From the last two decade the political approach has been changed in India, and now it had been one of the leading economies, as its export composition basket have more weight of manufacturing and electronics goods, beside this Indian has been recognized one of the leading services providing economy. Indian has been shifted to create the political environment in Indian industrial sector including (SME's) and small enterprises which has registered enormous growth. The doing business in India rank stand (132) has been improved as compared previously. However, still policy paralysis and political environment remain hurdle for the inclusive growth and remain major challenges as elucidate in the global competitiveness report mentioned that India has slip down to lower rank in 2012-13 in (59) than earlier. The paper focused on the objectivity of policy and political approach required for creating sound environment to achieve inclusive development and to address issues such as creating environment for competitiveness and efficiency to boost the economic growth.

**Keywords:** policy paralysis, global competitive report, doing business in India.

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## INTRODUCTION

### Indian Political Instability and Trade-off among the Agents

India since from the beginning characterized as agrarian economy due to its high concentration of Labor in the Agriculture sector which account of total workforce Accounts 75 percent while its contribution towards GDP is almost 25 percent which fell almost 14 percent currently while mass of the population still engaged in the primary activity accounts almost 50 percent of total workforce. Which represent that after that India has reap the eve of 64<sup>th</sup> Independence year it still have low contribution of primary activities to the GDP while and

high number of employment is provided by this sector.

Even in the Balance of Payment (BOP) at the British era it was founded that India was exporting mainly primary commodity (i.e. jute, cotton, and Textile) while taking the account of recent basket of the commodity of Indian balance of payment (BOP) has structural shift from the primary product to secondary which include Engineering goods, Gem and Jewels, Chemical Product etc. which represent high Skewness in the commodity of Indian Export Basket from primary to high-values Industrial goods, usually economics text theory tell us that as the economy face the transition from the agriculture to industrialization or the process of

development start economy shift their export baskets mainly comprising industrial goods from the tradition core labor intensive primary goods<sup>1</sup>. These developments took place in The First Generation Economic Reforms of early Nineties which impetus the need and to strengthen Institutional setup, to allow more Investment in the market which is domestically as well as externally, through the development of sound financial market; effective regulatory mechanism and liberal attitude towards the foreign players by encouraging them to setup their entity in the India; and finally bringing technology and competitiveness in the Indian market. In the despite of Reforms India's share in world merchandised Exports have been increase marginally from 0.5% (1980) to 1.5 in (2010)(Economics survey, 2012) as compared to neighbor country china has 10.04% share of the world trade. This make clear that India need to do more in respect to boost trade and growth and It was assumed that it is prerequisites for the development and more has to be done in order to attain high pace of growth path and attention should be drawn towards the second generation economic reforms(Hindu, 2013).which are assuming vital from continue slowdown of global economic growth recovery and Indian remain one of the fourth largest growing economy in the world just after U.S, China and Japan; Indian who adopted initially Import substitution strategy (ISI) against Chinas export led growth later found that focus should be given to the Export-led strategy is the pillar of rapid economic growth.

1. Prebisch-singer hypothesis of Term of Trade.
2. Source, Economic survey of India 2012.
3. The Hindu, 08, Jan,2012.

In the beginning of the planning India adopted the soviet modal as a framework of India planning keeping in the objective to the mind that to provide public goods and to made heavy investment meant by the government and they should also encourage private players. Indian government also provide democratic Institution setup which they did successfully, however at beginning of the planning policy remain slightly conservative. Of which policy cause to more protectionist and export pessimism due to intuition that developing countries comprise mainly primary goods which

Have inelastic demand, despite pessimism Indian strategy for the development shown remarkable achievements which push Indian towards active participation of states, modernization of industries through the self-reliance, and some efforts towards creating social value and equity (Basu Kaushik, 2006).

Further, despite their remarkable change in growth as compared to pre-independence and pre-industrialization Indian achieved remarkable growth rate, but if we compare with other developing nations India still lagged behind from other's developing nation particularly East

Asian nations and China which registered high growth rate, Indian also achieved decent growth due to its macro-economic reforms in 1980's, reducing or almost eliminating tariffs, adopting liberal policies and shift towards structural change in the production goods, for which required strong Institution setup vis-à-vis a large market.

### Progress towards Reforms and Non-cooperation

Earlier India did much to boost the economic growth and development but later in studies, it was observed that what India did something in anemia which pushed unbalance growth and development rather than ontologically strategy. Sometime, India has done under pressure due to external factors as well as on internal factors as showing number of development may be due to diversity and non-cooperation of states or Institutions in the democracy as suggested by that there is lack of coalition exists in democratic government and further clear that no faire government can be elected in democracy by voting method<sup>4</sup> (Arrow's Theorem, 1972) is flaw if certain condition are met.

This can be proved by using Arrows Impossibility theorem which concluded that if there any government is elected under democratic political voting method and further assumed are no dictatorship exists so, country can't achieved optimal welfare or no-one government can electing by democratic voting method as preference are different due to which no one government come with the absolute majority which further create problem of policy paralysis (Kaushik Basu, 2004).

True democracy improve the welfare and policy become more efficient for the whole community than individual but In partial method of the democracy when there is coalition exists often to implement better policies become complex phenomena due to lack of political support which can be represent thorough Nash Equilibria (Nash, John. 1951)where if tow party in coalition may cooperate then both will be better off in the term of economic welfare but implicitly no one party supports in coalition and better policies and reforms are remain impeded due to Non-cooperation exists among the party and the final result is to Government failure.

4. See, Arrow's impossibility theorem, where it shows that if few set of condition are maintained in such a case democracy become flaws.
5. Prof. John Nash, shows how equilibrium exist in case of when two people implicitly do not cooperate and fall under low payoff which is the condition called Nash Equilibrium. Nash Equilibrium is the standard model under Game theoretic framework.

		A's(opposition)	
		Coordinate	Non Coordinate
Players B' (wining party)	Coordinate	HIGH, HIGH	Moderate, Low
	Non Coordinate	Low, Moderate	Low, Low

**Figure 1**

The Figure 1 Nash Equilibrium solution possible when there are political parties in the democratic government exists, where there are two parties, one who is winning and Leader, and another is party in opposing called rival, as thing very optimistic and further assumed that party in majority is more liberal in the sense of creating environment of reforms for economies to push towards development more rapidly, they required support of oppositions for the majority, as opposition know that the program is introduce make lot of reforms and good governance will be establish. However, if opposition coordinate to the winning party for economic reforms the outcome will be positive for both the political parties, but as opposition don't want to get more popularity for winning parity they choose to Non to cooperate them which have low payoffs(Basu Kaushik, 1986). they do not cooperate and here again the situation end up with low reforms and development which make clear, how rationality in planning become important and need special address which required extensive game theoretical framework model and strategic analysis.

### **Institutions and Market Failure**

However this remain not the least option but there are other cause where Government often failed and not able to provide public goods to the society as desired due the lack of political influence or voting consensus this lead the economy far away from the Bliss point where there may be efficient allocation and redistribution is possible and overall improvement can be achieved as suggested by in the theorem of Pareto optimality(Pareto, 1923) in which if more negative externalities exist in the market due to asymmetric information, free rider problem, etc. the efficiency can't be improved if the some of the agent have hidden information to overcome these issues what

is required a strong setup of Institutional, Generally, it assumed that Institutional play an essential role for the economic growth and development.

The Present need to build and strengthen the Institutions which can bridge the resources among the players in the market and enhance allocative efficiency also communicate with public and private player for the mutual benefits to enhance productive efficiency which will play vital role for the process of development including more market driven economy which bring competitiveness in the domestic market and brought down cost and increase efficiency in the product, for which huge investment is perquisites and which can't match with domestic saving alone but required foreign investment and are

complementary, a financial flow should be encourage because it also bring technology and competition of which the benefits are shared by both by consumer and the producer in the society as technological flow encourage cost-cutting opportunity and the production and output frontier shift to the right of the country as under the assumption it can maximize output within the same cost is called productive efficiency while consumer befitted in the term of more efficient product in the same cost and product differentiation in the term of variety of product. However, here the role of Institutional become vital to provide infrastructure, market for the bridging the gap between among the agents and enhance distributive efficiency, they also responsible to provide and share market data and forecast about the market sentiments in advance and communicate with the among agents public and private, provide statistics and reports that bring out the important facts and provide transparency to create more favorable climate for Investment in the economies as the purpose served by some of the Leading Institutional

- *Vilfredo Pareto 1923. In a Pareto efficient economic allocation, no one can be made better off without making at least one individual worse off. Given an initial allocation of goods among a set of individuals, a change to a different allocation that makes at least one individual better off without making any other individual worse off is called a Pareto improvement.*
- *Projection is based on wealth Report-2012.*

### Issues a Shifting Paradigm of Growth

India which has improved its performance and makes significance development to creating Institutions for the rapid economic development and creates more avenues for boost the growth in the early 1990's with the objective of that more se development program will be run parallel or on continues basis while it was felt that later the process of reforms become slow due to political factor, lack of Centre-state coalition, and path of development become fainéant. As criticized by Paul Rosenstein-Rodan (1943) still apply in the case of India development path where massive development initiative need to be taken in the form of Reforms, opening markets, allowing competitions, building and setup Infrastructures etc. which requires continuous change and effort to put more technological impetus to make qualitative changes for the rapid development growth. Indian planning commission has prepared drat which shows that India will be Top Leading economy in the 2050(wealth report, 2012).

To archived such remarkable growth India will lead to the world by contributing almost 85 trillion GDP Just followed by China which is expected to grow near about 80 trillion output where in 2012 India output is account almost 3 trillion which seems complex target as to achieved such growth rate India need to walk a step ahead for the economic reforms as urgent need was felt to caught the pace of growth which required a second generation reform from first generation reforms as India did in late 1980's.

However, In the past Indian have done remarkable job where one side India will able to mobilized households saving for the Investment which have mark significant improvement of saving and investment rats and create favorable trade pattern which has boost Indian trade and push India towards the path of rapid growth and development. To called it development however still argumentative while such remarkable climate has been created more positive scenario in the global market, the performance can be seen through world's development

Reposts: particularly Doing Business in India(Doing Business India, 2012)as India got placed 132 rank in 2012 globally a 7 rank ahead from 139 in 2011, includes different Indicator of starting business in India (Figure-1) i.e. starting a business, credit access facilities, protecting

investors etc. are relevant to assess the performance of doing business in the globe.

Another Repots is world competitiveness repots-2012where India has been placed with 59 ranks for 2012-13 as compared to 56 ranks from 2011-12, and dip the ranking mainly due to merely improvement on vital indicator under which performance measured which are categorized under three pillar (i.e. factor driven, efficiency driven and innovation driven growth) here one think that India has been put a growth which are "factor driven" and this required a growth driven through an Institutional, Infrastructure, Health and macro-economic environment, whereas countries are put in "efficiency driven growth" when the growth are driven mainly through efficient labor & goods markets, higher education, financial development, and technological readiness. In third phase of competitiveness as defined under growth in led by "Innovation" which include two important parameters first Business sophistication and secondly, Innovation with high wage rate and ability to make continuous innovation via new products, and business models. How and what exactly transition occurred form factor driven to efficiency or to Innovation and what weighted are assigned for could clear from the Table 1.

The repots(Figure 2) clear that economics to achieved rapid growth they required perquisite condition to setup Institution for efficiency and Innovation which required to fulfill the need to attain Inclusive approach to create sound business environment, strong collaboration between Institutions and R&D, and Interlinking among the important pillar as mentioned in world competitiveness repots, all 12 variable are essential to achieved Inclusive growth and to create equity and efficiency with Balance growth.

The reports (Figure 3) suggest despite a huge efforts India growth story remain behind the small partner a intra-comparison studies suggest and elucidate picture where we have taken three emerging economics are China, India and Singapore (see, Figure-2).

The above intra-comparison make clear that India have low investment in ICT's, less R&D which stood almost 0.8 percent of GDP, whereas china R&D expenditure stood almost 2 percent of GDP (Battelle, 2011).A regulatory environment required political support and effective regulation framework with qualitative Institutional setup; while political stability in to give protection from policy paralysis. Creating sound business environment depends on all other variable and market reforms, allowing competition, large size of markets, and economics of scales with innovations. Finally, to boost Investment for the economy India remain quite better as it has edge over the other fastest growing economics in the term of "Demographic Dividends" as the coming three to four decade India population age group shift to productive age group and will save more in one way, and by providing technological support to enhance qualitative knowledge

<b>Table-1. Sub-index weights and Income thresholds for stage of development</b>			
	<b>Stage of development</b>		
	<i>Stage 1: Factor driven</i>	<i>Stage 2: Efficiency driven</i>	<i>Stage 3: Innovation driven</i>
<i>GDP per capital (USD\$) thresholds</i>	<i>Less than 2,000</i>	<i>2,000-8,999</i>	<i>Greater than 17000</i>
<i>Weight of basic requirement</i>	60%	40%	20%
<i>Weight of efficiency enhancer</i>	35%	50%	50%
<i>Weight for innovation and sophistication</i>	5%	10%	30%

Source: The Global Competitiveness Report 2014-2015.

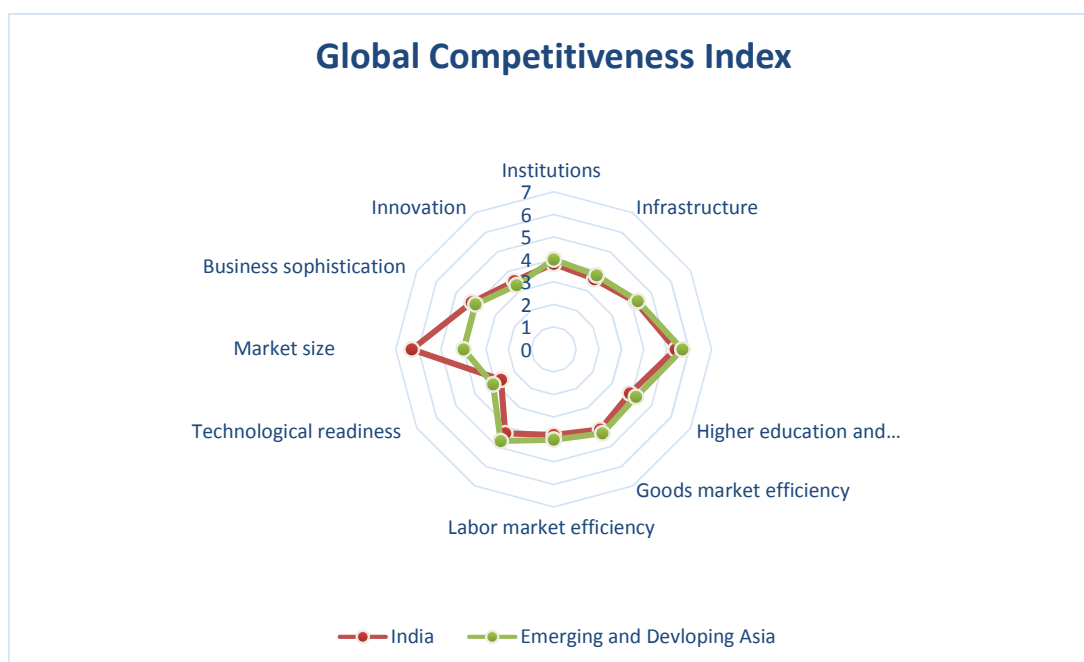


Figure 2. Global Competitiveness Index

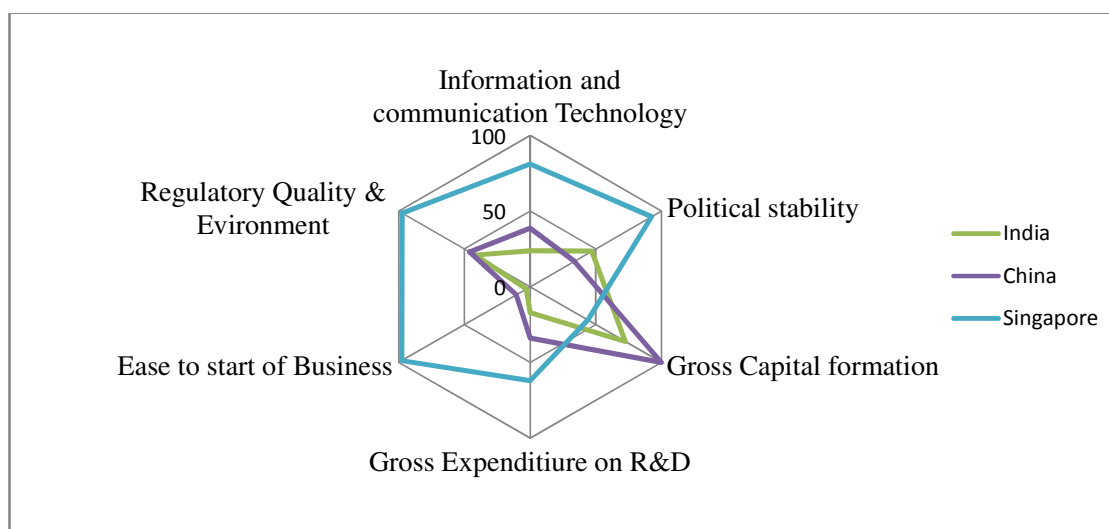


Figure 3. Intra-comparison of world competitiveness reports among fastest growing economics

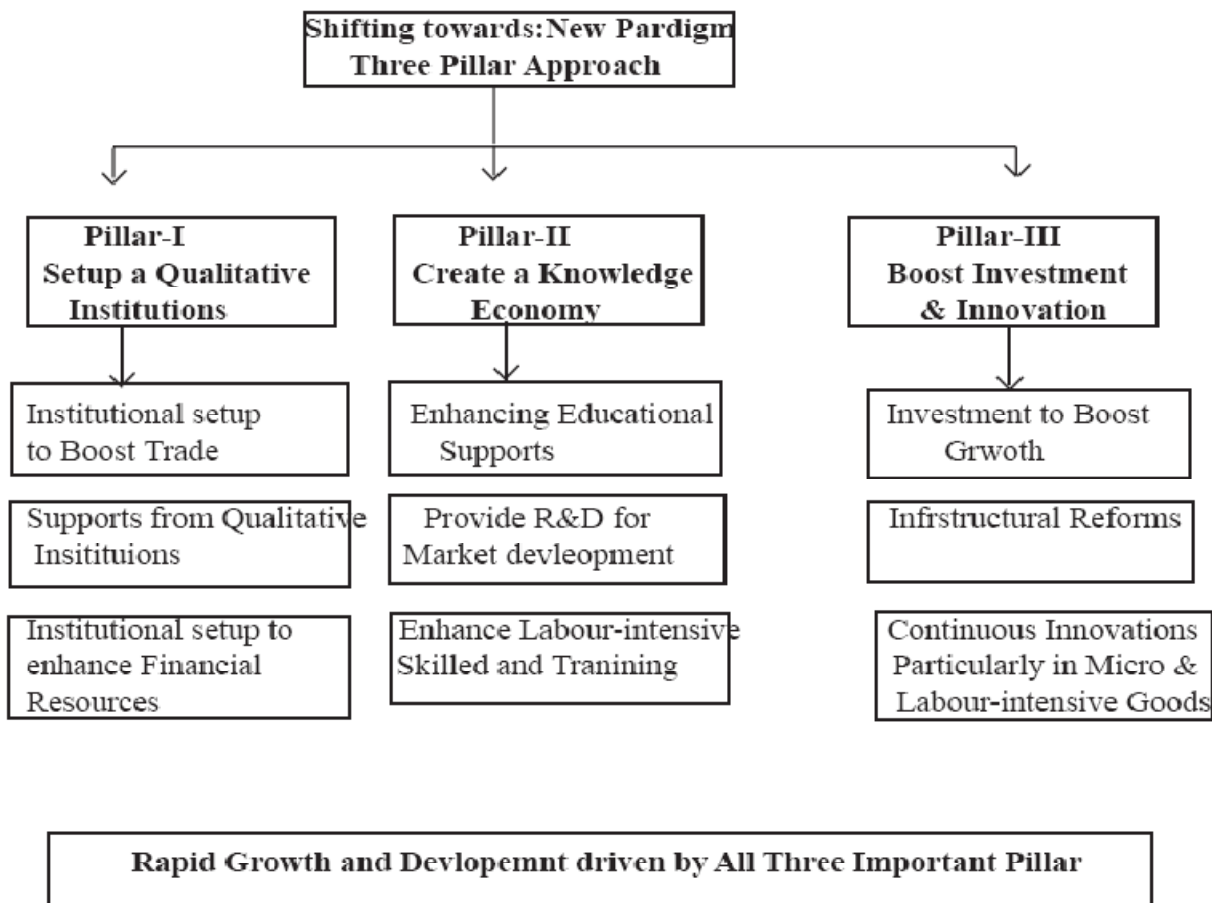


Figure 4

and education will improve better living standard in another way.

**Approach for Inclusive growth and sound business environment**

To define the prerequisites for Inclusive growth and to create sound business environment remain complex theory in economics, generally it observed that Investment is the key of growth whereas education define as the key of development. From the simple two variables we left other important variable which remain equally important as a strong need was felt to trap the resources from the growth to development and that gap can be narrowed by setting up qualitative Institutions, to provide markets size, to enhance knowledge by bridging the gap between Institutions and R&D, to enhance financial resource to provide sound infrastructure to boost the trade and finally, to raised financial flows from, form the global financial market which is not only the finance but

so called (TCA) theological collaboration agreement flow, which would bring not only capital but efficient capital allocation including sophisticated technology which will cut down the cost and raise quality of products in the term of both demand side i.e. product differentiation and supply side i.e. economics of scale (Antonio, Mihov, 2009.)

For which the paper focused on the three pillar approach which include the all three important legs as defined under various repots including Knowledge Economics Index (Knowledge Economics Index, 2012) which include these parameters for creating an economy which create knowledge hub for the inclusive growth and more liberal attitude towards to create sound business environments, and better transparency to protect form policy paralysis These there pillar are given in the figure 4.

The figure 4 makes clear that India need to adopt three pillars to focused labour-intensive product and more R&D should be done in order to continuous innovation and supports for market development.

## CONCLUSION

India, economy remain abundant labor and most of the population still remain without access of basic amenities including health, shelter, education and clean drinking water which further affect their capability as they don't able to provide qualitative productivity and marginal productivity of those labor remain low and poor quality. So, above approach not only provide and enhance quality of labour but also enhance productive by providing basic amenities as well high skilled trading and imparting higher education, through the use of ICT, to build human capital via creating knowledge economy and overall development of the economy.

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